# INDEX TO THE NOTES TO THE BASIC FINANCIAL STATEMENTS

# NOTES TO THE BASIC FINANCIAL STATEMENTS

**SEPTEMBER 30, 2004**

**( Dollar amounts expressed in thousands)**

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. BACKGROUND AND HISTORY OF GOVERNMENTAL UNIT

**General Operations**

The District of Columbia (District) was created on March 30, 1791 and became the Nation's capital on December 1, 1800, in accordance with Article 1, section 8, clause 17 of the United States Constitution. This portion of the Constitution empowered Congress to establish the seat of government for the United States. On January 2, 1975, Congress granted the District a Home Rule Charter, which became effective through the enactment of the District of Columbia Self-Government and Governmental Reorganization Act, Public Law 93-198.

The District is a municipal corporation, which operates under an elected Mayor-Council form of government. Accordingly, an Act of the Council, other than a budget request act, becomes a law unless Congress and the President disapprove it after it has been adopted. Citizens of the District have the right to vote for the President and Vice-President of the United States but not for members of Congress. The District does, however, have an elected nonvoting delegate to the United States House of Representatives.

Due to its unique organizational structure (i.e., not a part of any other state government), the District provides a broad range of services to its residents, including those normally provided by a state. These services include public safety and protection, fire and emergency medical services, human support and welfare services, public education and many others.

### B. FINANCIAL REPORTING ENTITY

A financial reporting entity consists of a primary government and its component units. The primary government is the District of Columbia, including all of the agencies that make up its legal entity. Criteria to be considered in determining organizations to be included as component units within the District's reporting entity are as follows:

- The District holds the corporate powers of the organization.
- The District appoints a voting majority of the organization's board.
- The District is able to impose its will on the organization.
- The organization has the potential to impose a financial burden on, or provide financial benefit to the District.
- The organization is fiscally dependent on the District.
- It would be misleading to exclude the organization from the District's financial statements.

Based on the aforementioned criteria, the District's financial statements include five discretely presented component units: Water and Sewer Authority, Washington Convention Center, Sports and Entertainment Commission, Housing Finance Agency, and the University of the District of Columbia. These organizations are presented in a separate column to emphasize that they are legally separate from the District.

The Mayor, with the consent of the Council, and other District officials appoint the governing bodies of all component units. The District has an obligation to provide financial support to the Housing Finance Agency and the University of the District of Columbia. In addition, the District must approve certain transactions of the Washington Convention Center and the Sports and Entertainment Commission, and certain tax revenues are dedicated to these organizations. The Water and Sewer Authority is responsible for the payment of certain District long-term debt issued before that entity's creation to finance capital improvements for its predecessor agency. For that reason, in conjunction with the fact that the Water and Sewer Authority is an independent authority under its enabling legislation, this entity is included as a component unit of the District of Columbia. Information on how to obtain a complete set of financial statements for each entity can be obtained at the following locations:

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Washington Convention Center Authority**
General Manager
801 Mount Vernon Place, N.W.
Washington, D. C. 20001

**Housing Finance Agency**
Executive Director
815 Florida Avenue, N.W.
Washington, D. C. 20001

**Sports and Entertainment Commission**
General Manager
2001 East Capitol Street, S.E.
Washington, D. C. 20003

**University of the District of Columbia**
President
Van Ness Campus
4200 Connecticut Avenue, N.W.
Washington, D. C. 20008

**Water and Sewer Authority**
General Manager
5000 Overlook Avenue, S.W.
Washington, D. C. 20032

The District established the District of Columbia Tobacco Settlement Financing Corporation (the "Tobacco Corporation") as a special purpose, independent instrumentality of the District government. The Tobacco Corporation is a blended component unit because it provides services exclusively to the District, and the District appoints all members of the governing body of the Corporation. The members have the ability to modify or approve the budget of the organization, appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations (management) of the organization, and thus the District is able to impose its will. Separate audited financial statements for the Tobacco Corporation are available from the Office of the Chief Financial Officer, 1350 Pennsylvania Avenue, N.W. Suite 209, Washington, D.C. 20004.

### C. RELATED ORGANIZATIONS

A related organization is one for which the primary government is accountable but not *financially accountable.* The District of Columbia Housing Authority, the National Capital Revitalization Corporation, and the District of Columbia Courts are related organizations because the District is not financially accountable for them. Although the Mayor appoints a voting majority of the governing boards of these organizations (except for the Courts), the District's accountability for each organizations does not extend beyond such appointments. The Mayor does not appoint the members of the Courts' Joint Committee on Judicial Administration, however the Courts are considered a related organization because it provides the judicial services normally associated with municipal and state governments for the District.

### D. JOINT VENTURE

The District is a participant with other local jurisdictions in a joint venture to plan, construct, finance and operate a public transit system serving the Metropolitan Washington Area Transit Zone, which includes the District of Columbia; the cities of Alexandria, Falls Church, Fairfax, Manassas and Manassas Park and the counties of Arlington, Fairfax, Loudoun and Prince William in Virginia and Montgomery, Anne Arundel and Prince George's in Maryland. The Washington Metropolitan Area Transit Authority (WMATA) was created in February 1967 for that purpose. WMATA is governed by a six member Board and six alternates, composed of two Directors and two alternates each from Maryland, Virginia and the District of Columbia. The Directors and alternates for Virginia are appointed by the Northern Virginia Transportation Commission from among its members; for the District of Columbia, by the Council from its members and mayoral nominees; and for Maryland, by the Washington Suburban Transit Commission from among its members. Further information regarding this joint venture is discussed in Note 11.

### E. BASIS OF PRESENTATION

*Government-Wide Financial Statements* – The government-wide financial statements report information on all of the non-fiduciary activities of the primary government and its component units. Since by definition, assets of fiduciary funds are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements. Governmental activities of the primary government, which normally are supported by taxes and intergovernmental revenues, are reported separately from

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

business-type activities, which rely to a significant extent on fees and charges for support. The following two statements are included in the government-wide statements:

- *Statement of Net Assets* – The Statement of Net Assets displays the financial position of the District (governmental and business-type activities) and it's discretely presented component units. The District reports all capital assets, including infrastructure, in the government-wide Statement of Net Assets. The net assets of a government is broken down into these three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

- *Statement of Activities* -- The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include fines and forfeitures, charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The District reports depreciation expense, the cost of "using up" capital assets in the Statement of Activities.

*Fund Financial Statements* - Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. Each fund is considered to be a separate accounting entity and the transactions in each are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses/expenditures.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Governmental Funds** are used to account for all of the District's general activities. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Funds and the discretely presented component units) are accounted for in the Governmental Funds. The District reports the following major governmental funds:

- *General Fund,* used to account for all financial resources not accounted for in other funds.

- *Federal and Private Resources Fund,* used to account for proceeds of intergovernmental grants and other federal payments and private grants that are legally restricted to expenditure for specified purposes.

- *General Capital Improvements Fund,* used to account for the purchase or construction of capital assets financed by operating transfers, capital grants or debt.

- *Non-Major Governmental Funds* includes two Special Revenue Funds: (1) Tax Increment Financing (TIF) Program Fund and (2) Tobacco Settlement Financing Corporation (TSFC) Fund; and one Capital Projects Fund: Highway Trust Fund.

**Proprietary Funds** are used to account for activities similar to those found in the private sector where the costs (including depreciation) of providing goods or services primarily or solely to the public on a continuing basis are, financed or recovered primarily through user charges, and the determination of net income is necessary or useful to sound financial administration. The District has two major proprietary funds, which are discussed below:

- *Lottery and Games Fund* - Used to account for revenues from lotteries and daily numbers games operated by the District and from licenses to conduct bingo games and raffles, and related prizes, expenses and capital outlays. Gaming activities are administered by a Lottery and Charitable Games Control Board consisting of five members appointed by the Mayor with the consent of the Council.

- *Unemployment Compensation Fund* - Used to account for the accumulation of resources to be used for benefit payments to unemployed former employees of the District and federal government and of private employers in the District. Resources are contributed by private employers at rates fixed by law, and by the District and federal government on a reimbursable basis. The administrative costs of the program are accounted for in the General Fund.

- *Non-Major Proprietary Fund* - Used to account for the operations of the Washington Center for Aging Services, the Washington Center for Aging Services Center Care, and JB Johnson Nursing Center.

**Fiduciary Funds** are used to account for assets held by the District in a trustee capacity or as an agent for

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

individuals, private organizations and other governments. The District reports the following fiduciary funds:

- *Pension Trust Funds* report the activities of the District's retirement system, which accumulates resources for pension benefit payments to qualified District's employees.

- *Private Purpose Trust Funds* are used to report any trust arrangement not reported in pension trust funds "under which principal and income benefit individuals, private organizations, or other governments." The District offers a tax-advantaged 529 College Savings Investment Plan (named after Section 529 of the Internal Revenue Code) The Plan is designed to help families save for the higher education expenses of designated beneficiaries and is available to DC residents as well as non-residents nationwide.

- *Agency Funds* report those resources held by the District in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

Fiduciary funds are not included in the government-wide financial statements since the resources cannot be used for operations of the government.

### F. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Thus, the accounting and financial reporting treatment applied to a fund or activity is determined by its measurement focus.

**Measurement Focus**

All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, generally, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The proprietary funds, pension and private purpose trust funds, discretely presented component units, and the government-wide financial statements are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Net assets of the government-wide and proprietary funds are segregated into capital assets, net of related debt, restricted and unrestricted components. The related operating statements present increases (revenues) and decreases (expenses) in net assets. Operating statements of pension and private purpose trust funds present additions and deductions in fiduciary net assets.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). The District also has the option of following private-sector guidance issued after November 30, 1989 for its business-type activities and proprietary funds and component units. As allowed by GASB Statement No. 20, the District has elected to follow only those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB), issued prior to December 1, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

**Basis of Accounting**

The District's financial statements are prepared in accordance with generally accepted accounting principles applicable to governmental entities (GAAP) as established by GASB.

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is when they become both measurable and available.) "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes are considered available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. GASB Interpretation No. 6 (GASBI 6) requires that expenditures and liabilities such as debt service, compensated absences, claims and judgments, and special termination benefits be recorded in the governmental fund statements only when they mature or become due for payment within the period. Such activity is recorded in the government-wide financial statements as incurred.

Those revenues susceptible to accrual are taxes, federal contributions and grants, charges for services and investment income. Property taxes are recognized as revenue in the tax year for which they are levied, provided they are available. Real property taxes are levied as of October 1 on property values assessed as of the preceding January 1. The tax levy is due and collectible in two equal installments on March 31 and September 15. On these dates, the bill becomes delinquent and the District may assess penalties and interest. Real property taxes attach as an enforceable lien on property as of October 1 of the year after levy. Sales and use taxes are recognized as revenue when the sales or uses take place. Interest on investments is recognized when earned. Charges for services are recorded as revenues as services are provided.

In the District, the personal property tax is self-assessed. The District requires a personal property tax return for the tax year beginning July 1 - June 30 each year to be filed on or before July 31 of that tax year. The return should report the remaining cost (current value) of all tangible personal property that has taxable situs in the District of Columbia as of July 1. The property taxes become levied once the returns are filed. However, the District does not have a legal claim to a provider's resources that is enforceable through the eventual seizure of the property until after July 31 if the taxpayer fails to pay the property tax when due. The revenue budget for the Personal Property Tax is formulated with the understanding that 25% of collections are to be allocated to the current fiscal year, while the remaining 75% are to be allocated to the immediate subsequent fiscal year.

Intergovernmental revenues are amounts derived through agreements with other governments. In general, these revenues are comprised of contributions and grants made by the Federal government to the District. Contributions are recognized as revenue when received. Generally, entitlements and shared revenues are recognized as revenue when received or earlier, if measurable and available. Resources arising from grants are usually subject to certain eligibility requirements; therefore, most grant revenues are recognized as revenue only when the conditions of the grant are met. Grant funds received before all eligibility requirements are met are recorded as deferred revenue.

Licenses and permits, fines and forfeitures are not considered susceptible to accrual because they are not both measurable and available to finance expenditures of the current period. Licenses and permits and fines and forfeitures are recorded as revenue when received in cash because they are generally not measurable until received. The government-wide financial statements, proprietary funds, and pension and private purpose trust funds use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The pension trust funds recognize additions to net assets from participants' contributions when due, District contributions when due and a formal commitment for payment has been made, net investment income as earned, and expenditures for benefits and refunds when due and payable. The private purpose trust fund recognizes additions to net assets when participants' contributions are received.

**Food Stamps**

The District participates in the federal government's food stamp program, which is designed to increase the food purchasing power of economically disadvantaged residents. The District mainly uses the Electronic Benefits Transfer (EBT) system that allows program beneficiaries to charge their qualifying food purchases, thereby eliminating the need for paper stamps. Thus, revenues and expenditures are reported in the federal and private resources fund when the underlying transaction (the food purchase) occurs.

### G. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES

**Process**

About March 15 of each year, the Mayor submits to the Council an all sources budget for the General Fund, for the fiscal year commencing the following October 1. The Council holds public hearings and adopts the budget through passage of a budget request act. The Mayor may not forward and the Council may not adopt any budget for which expenditures and other financing uses exceed revenues and other financing sources. A project-length financial plan is adopted for the General Capital Improvements Fund. About June 1 of each year, the Mayor approves the adopted budget and forwards it to the President of the United States for review. Early in June of each year, the President submits the reviewed budget to Congress which conducts public hearings and enacts the budget and the authorized Federal payment in-lieu-of taxes though passage of an appropriation law.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Appropriations Act**

The legally adopted budget is the annual appropriation public law (Appropriations Act) enacted by Congress and signed by the President. The Appropriations Act authorizes expenditures at the function level or by appropriation title, such as Public Safety and Justice, Human Support Services or Public Education. Congress must enact a revision that alters the total expenditures of any function. The District may request a revision to the appropriated expenditure amounts in the Appropriations Act by submitting to the President and Congress a request for a supplemental appropriation.

Pursuant to the Reprogramming Policy Act (D. C. Official Code 47-363(2001), as amended), the District may reallocate budget amounts within appropriation title. The appropriated budget amounts in the Budgetary Comparison Statement include all approved reallocations. This statement reflects budget to actual comparisons at the function level (or appropriation title). Appropriated actual expenditures and uses may not legally exceed appropriated budgeted expenditures and uses at the function level as shown on this statement. A negative expenditure variance in the budgetary comparison statement for a particular function is a violation of the Anti-Deficiency Act (31 U.S.C. 1341, 1342, 1349, 1351) and the District of Columbia Anti-Deficiency Act (D.C. Official Code 47-355.01-355.08, 2001). Also, a violation of the D.C. Anti-Deficiency Act exists if there is a negative expenditure variance for a particular purpose or object of expenditure within an appropriation. There were no violations of these Acts as of September 30, 2004, although immaterial, technical violations of the D.C. Anti-Deficiency Act did occur during the year. These violations were cured by fiscal year-end.

The Appropriations Act specifies expenditures and net surplus or deficit of revenues. The Appropriations Act does not specify revenue amounts. The legally adopted revenue budget is based primarily on the revenue estimates submitted to the President and Congress as modified through legislation. The Budgetary Comparison Statement shows Revenues and Other Sources as presented in the Conference Report (H.R. 108-401) and Expenditures and Other Uses as contained in the Appropriation Act (PL 108-199.)

By law, the budgetary general fund includes both the general fund and the federal and private resources fund presented in Exhibit 2-b. Additionally, the budgetary basis of accounting used to prepare the budgetary comparison statement presented in Exhibit 2-d differs from the GAAP – basis general fund and federal and private resources fund due to other basis and entity differences, as follows:

- *Basis Differences* - The District uses the purchases method for budgetary purposes, and the consumption method to account for inventories on a GAAP basis.

- *Entity Differences* - This basis relates to inclusion or exclusion of certain activities for budgetary purposes as opposed to those included or excluded on a GAAP basis. Such activities primarily include the following as detailed on Exhibit 2-d:
  - Fund balance released from restrictions
  - Proceeds from debt restructuring
  - Accounts receivable allowance
  - Operating cost from enterprise funds

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the appropriation, is employed in the governmental funds. Encumbrances outstanding at year-end do not constitute expenditures or liabilities for GAAP or budgetary purposes. All encumbrances lapse in the General Fund at year end, and may automatically be re-appropriated and re-encumbered as part of the subsequent year's budget.

### H. CASH AND INVESTMENTS

**Cash**

Cash from the governmental and proprietary funds and certain component units is pooled unless prohibited by law. The cash management pool is considered to be cash because it is used as a demand deposit account by each participating fund and component unit. If a fund overdraws its share of the pooled cash, that fund reports a liability to the general fund, which is deemed to have loaned the cash to the overdrawn fund. The general fund reports a receivable from the overdrawn fund.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and mature in such a short period of time that their values are effectively immune from changes in interest rates. The District's cash management pool is considered a cash equivalent. For an investment to be considered a cash equivalent, it must mature no more than three months after the date it is purchased.

**Investments**

Any cash that is not needed for immediate disbursement is used to purchase investments. The District purchases legally authorized investments consistent with the provisions of the "Financial Institutions Deposit and

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment Amendment Act of 1997" (D.C. Law 12-56), which became effective March 18, 1998. At September 30, 2004 the District has invested primarily in investments backed by U.S. government agencies' securities, with the implicit guarantee of the federal government. Such investments are considered to be the equivalents of cash. The Pension Trust Funds are authorized to invest in fixed income, equity securities and other types of investments. Also, the Private Purpose Trust Fund is authorized to invest in eight portfolios which are comprised of equities, balanced fund, and fixed income securities.

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, which approximates fair value. Other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar investments. Investment purchases and sales are recorded as of the trade date. These transactions are not finalized until the settlement date. Cash received as collateral on securities lending transactions and investments made with such are reported as assets and as related liabilities for collateral received.

### I. NEW ACCOUNTING STANDARDS ADOPTED

In fiscal year 2004, the District adopted a new accounting standard issued by the Governmental Accounting Standards Board (GASB) and implemented the guidance provided by GASB Technical Bulletin 2004-1.

- Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* establishes accounting and financial reporting standards for impairment of capital assets and insurance recoveries. In accordance with this standard, a capital asset is considered impaired if there is a permanent, significant and unexpected decline in service utility. Adoption of this standard did not identify any impaired capital assets.

- Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues,* clarifies guidance for component unit determination for tobacco settlement authorities (TSAs) and for recognition of transactions resulting from the issuance of debt by TSAs that will be repaid by all or portion of the settling governments' future tobacco settlement payments. The District established the Tobacco Corporation as a blended component unit, and recognizes revenues based on domestic tobacco shipments and the related annual payment in accordance with the Master Settlement Agreement. Compliance with this bulletin required a restatement of the Tobacco Corporation's beginning fund balance to accrue additional revenue related to tobacco shipments since the prior annual payment through each fiscal year-end. (See section W of this note).

### J. RESTRICTED ASSETS

Certain governmental and proprietary funds, component unit, and all fiduciary fund assets are restricted as to use by legal or contractual requirements. Any excess of restricted assets over liabilities payable from restricted assets is reported as part of the restricted net assets in the government-wide, proprietary, and fiduciary financial statements and as reserved fund balance in the governmental fund financial statements to indicate the portion of the net assets or fund balance that is available for restricted purposes, only. Restricted assets also represent cash deposited in bank accounts legally restricted for certain purposes such as the payment of bond principal and interest or the payment of fiscal fees on long-term debt.

### K. PREPAID ITEMS AND DEFERRED CHARGES

Prepaid items are for payments made by the District in the current year for services to be received in the subsequent fiscal year. Such advance payments are recorded as prepaid charges at the time of prepayment and recognized as expenditures/expenses when the related services are received.

In governmental funds, bond (discounts) premiums and issuance costs are recognized in the current period as interest and fiscal charges, respectively. In the government-wide financial statements, bond (discounts) premiums and issuance costs are capitalized and amortized as fiscal charges over the term of the related bonds.

### L. RECEIVABLES AND PAYABLES

Taxes receivable are taxes levied by the District, including interest and penalties on delinquent taxes, which have not been collected, canceled or abated, less the portion of the receivables estimated not to be collectible. Accounts receivable are amounts owed by customers for goods or services sold. Intergovernmental

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

receivables are amounts owed by other governments to the District.

Accounts payable are amounts owed to vendors for goods or services purchased and received. Intergovernmental payables are amounts owed to other governments.

### M. TRANSFERS AND OTHER TRANSACTIONS BETWEEN FUNDS

Interfund transactions are categorized as (a) revenues and expense/expenditure transactions consisting of temporary interfund transactions which include reimbursements and quasi-external transactions or (b) reallocation of resources transactions including temporary interfund loans, advances or operating transfers. Reimbursements between funds occur when expenditures/expenses made from one fund are properly applicable to another fund.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any remaining balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Short-term amounts owed between the primary government and a discretely presented component unit are classified as "Due to/from primary government" and "Due to/from component unit" on the statement of net assets.

Transfers are included in the results of operations of both the governmental and proprietary funds. Accordingly, transfers are reported in the "Other Financing Sources (Uses)" section of the statement of revenues, expenditures, and changes in fund balance (governmental funds) and in the "Transfers" section in the statement of revenues, expenses, and changes in net assets (proprietary funds).

### N. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and land improvements (infrastructure) such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items, are reported in the applicable governmental or business-type activities or component units columns in the government-wide financial statements and proprietary fund financial statements. All purchased capital assets are stated at cost when historical records are available and at estimated historical cost when no historical records exist. Assets acquired through capital leases are stated at the lesser of the present value of the lease payments or the fair value of the asset at the date of lease inception. Donated capital assets are stated at their estimated fair market value on the date received. The cost of maintenance and repairs that does not add to the value of the assets or materially extend asset lives is not capitalized. Betterments are capitalized over the remaining useful lives of the related capital assets. Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units financial statements.

Interest is capitalized in the government-wide financial statements for business-type activities and proprietary funds on assets constructed with long-term debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred on tax-exempt debt from the date of borrowing until completion of the project with interest earned on invested proceeds over the same period.

**Capitalization and Depreciation Policies**

Assets capitalized have an original cost of $5 or more per unit. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives for capital assets are shown in **Table 1** by category.

**Table 1 – Estimated Useful Lives (by Asset Category)**

| | Useful Life |
|---|---|
| Sewer Lines | 30-45 years |
| Buildings | 50 years |
| Furniture, Fixtures & Equipment | 5-10 years |
| Vehicles | 5-10 years |
| Land Improvements | 30-45 years |

### O. CAPITAL LEASES

Leased property having elements of ownership is recorded in the government-wide and proprietary fund financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in these financial statements.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### P. COMPENSATED ABSENCES

**Benefit Accumulation Policies**

The District's policy allows employees to accumulate unused sick leave, with no maximum limitation. Vacation (annual) leave may be accumulated up to 240 hours, regardless of the employee's length of service, while there is no limit to the amount of compensatory in-lieu-of paid overtime that may be accumulated.

**Accrual**

The District records vacation as an expenditure and related liability in the governmental fund financial statements only to the extent that they have matured or come due for payment. Accumulated annual leave that has not matured by the end of the current fiscal year is reported in the government-wide financial statements. Accumulated annual leave of the proprietary funds and discretely presented component units is recorded as an expense and liability as the benefits accrue to employees.

The District does not record a liability for accumulating rights to receive sick pay benefits. At the time of retirement; however, unused sick leave is credited at the rate of 22 days for each month of service and is added to the retirees' years of service in the Civil Service Retirement System and in the District Retirement Program.

The employees of the District earn sick leave credits that are considered termination payments at time of retirement rather than be taken as absences due to illness or other contingencies. The District estimates the sick leave liability based on the sick leave accumulated at fiscal year end by employees who are currently eligible for retirement and to receive sick leave payments upon separation, or who are expected to become eligible in the future to receive such payments. Accumulated compensatory leave is reported in the government-wide financial statements and in the proprietary funds.

### Q. LONG-TERM LIABILITIES

Under the District of Columbia Home Rule Act, as amended, no long-term general obligation debt (other than refunding debt) may be issued during any fiscal year in an amount which would cause the amount of the principal and interest paid in any fiscal year on all general obligation debt to exceed 17% of the total local revenues of the then-current fiscal year in which the debt is issued. The legal debt limitation is calculated annually by dividing maximum annual principal and interest by current-year total local-source revenues (excluding revenue and debt of the Water and Sewer Authority, pursuant to the Home Rule Act.)

General obligation bonds, revenue bonds and other long-term liabilities directly related to and intended to be paid from proprietary funds or discretely presented component units are included in the accounts of such funds. All other long-term indebtedness of the District, such as disability compensation, compensated absences, employee separation incentives and accreted interest liabilities, which have been incurred but not financed, are reported in the government-wide financial statements. Such obligations are to be paid through the District's general fund.

The District pays principal on its 1994B Capital Appreciation Bonds (CABs) annually. There are no periodic interest payments due. The CABs accrete to their full value at maturity. Interest is accreted and recorded annually using rates ranging form 6.60 to 6.65%. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the government-wide financial statements. The accreted value of such bonds is the current value, plus the interest that has been accumulating on the bonds.

### R. RESTRICTED NET ASSETS AND FUND BALANCE RESERVATIONS AND DESIGNATIONS

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as:

- *Invested in Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

- *Restricted Net Assets* - This category presents net assets subject to external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Non-expendable restricted net assets represent the portion of net assets that must be held in perpetuity in accordance with donor stipulations.

- *Unrestricted Net Assets* - This category represents net assets of the District not restricted for any project or other purpose.